



CERTIFIED ACCOUNTING TECHNICIAN (CAT)

STAGE 2 EXAMINATION

**S2.3 PROFESSIONAL ETHICS IN
ACCOUNTING AND FINANCE**

PILOT PAPER

ANSWERS

Answer Grid

- | | |
|---------|-------|
| 1. B | 26. D |
| 2. C | 27. C |
| 3. B | 28. C |
| 4. E | 29. A |
| 5. C | 30. D |
| 6. B, D | 31. C |
| 7. E | 32. A |
| 8. E | 33. E |
| 9. B | 34. C |
| 10. B | 35. A |
| 11. C | 36. C |
| 12. C | 37. A |
| 13. D | 38. B |
| 14. B | 39. D |
| 15. B | 40. D |
| 16. E | 41. C |
| 17. A | 42. B |
| 18. D | 43. A |
| 19. B | 44. B |
| 20. D | 45. C |
| 21. C | 46. B |
| 22. B | 47. C |
| 23. D | 48. B |
| 24. A | 49. A |
| 25. A | 50. A |

Detailed answers to questions

Marking scheme

	Marks
(a) 2 marks for each correct answer	<u>2</u>
Total marks for this section	<u><u>100</u></u>

1. B In option (ii), courtesy is not a principle of ethical behaviour – the definition given is of professional behaviour.
In option (iv), independence is not a principle of ethical behaviour – the definition given is of objectivity.

(LO 1.1)
2. C If a court finds that an auditor has not conducted their audit with a reasonable standard of care then they may have committed the tort of negligence and may therefore be liable.
The letter of engagement may be considered a contract between the auditor and the members; if the auditor fails to conduct the audit in line with the engagement letter – eg by failing to apply due care – then they may be liable for breach of contract.
Employment law is not relevant to auditor liability. The Rwanda Companies Act 2017 does not contain provisions in relation to auditor liability.

(LO 1.2)
3. B Lorraine's actions breach the principles of integrity and selflessness.
This is not a breach of accountability because it is not a question of Lorraine not having to account for her actions as such.
Independence is not a principle of public life.

(LO 1.7)
4. E This is most likely a threat to professional competence and due care, which is not given here as an option.
This is not a threat to integrity since there is no question of Lorraine being dishonest (the only real way integrity might be threatened would be if Lorraine were asked whether she could do the work and indicated that she could, when in fact she could not).
This is not a threat to objectivity since there is no question of Lorraine being biased.
This is clearly not a threat to confidentiality.
This is not a threat to professional behaviour, since there is no question of non-compliance with laws or regulations, or of discrediting the profession such.

(LO 1.1)

5. C Option (ii) is not a function of ICPAR, although it may be an effect of its work.
Option (iv) is the responsibility of the Rwanda Revenue Authority (RRA).
(LO 1.3)
6. B, D It should not be necessary to withdraw immediately, as it may be possible to implement other safeguards that will reduce the threat from the conflict of interest to an acceptable level.
Obtaining advice from legal counsel is not immediately relevant as there are no legal issues as such involved in this situation.
(LO 1.5)
7. E These are all examples of safeguards created by the work environment, not by the profession, legislation or regulation.
(LO 1.5)
8. E CPD is not the responsibility of the member's employer, but of the member themselves – therefore none of these options are correct.
(LO 1.6)
9. B Since he appears to have lied to his employer, Jean Damascene has demonstrated a lack of honesty.
(LO 2.1)
10. B Taking out an advert claiming to provide accounting services of the highest quality is not specific enough to be an exaggeration, and is likely to be seen as ethically acceptable because of its focus on service quality.
Telephoning potential clients is likely to breach data protection regulations regarding the storage and use of personal data.
An advert comparing the services provided with those of a named competitor is likely to fall foul of ethical guidance.
(LO 2.1)
11. C Disclosure in order to protect auditor's own interests is voluntary, as is disclosure in the public interest and in the case of non-compliance with law and regulations. There is, however, a presumption that the auditor is likely to disclose in these situations.
(LO 1.1)
12. C It is true that Christella is not legally obliged to offer Agnes advice, but it does not follow that she should not do so – the fact that a member is not legally obliged to offer advice does not prevent them from doing so in the vast majority of cases.
Sensitivity is a quality of ethical behaviour rather than an ethical requirement, and it does not supervene upon the requirements of the IESBA *Code of Ethics*.
The need to apply a professional standard of care exists wherever it is clear that the ICPAR member is being asked for advice in their capacity as a

member and that this advice will be relied upon.

(LO 2.2)

13. D Adhering to a Code of Conduct will not necessarily mean that ICPAR ethical guidelines have been adhered to; members should consider each set of guidance separately.

(LO 2.3)

14. B If a client is suspected of money laundering then their monies must not be held. If an accountant is prohibited from dealing with client monies then they must adhere to this prohibition. If client monies may be appropriated by the accountant then they must not be held.

(LO 2.4)

15. B Where disclosure is permitted rather than required by law, the accountant must obtain permission from the client. Where money-laundering is suspected then the member is obliged to disclose this to the relevant authority.

(LO 2.6)

16. E All of these represent advantages of confidentiality.

(LO 2.5)

17. A Professional behaviour is not threatened because there is no suggestion of unprofessional action or discrediting the profession.

Objectivity is not threatened because Jean-Baptiste has no reason to be biased.

There is no suggestion of a breach of confidentiality.

(LO 2.7)

18. D This is not an intimidation threat as there is no external person or body intimidating the member. It is not a self-interest threat because the issue is of political perspective, not financial (or other) interests. The self-review threat is not relevant here.

(LO 2.8)

19. B The Articles of Association should be held permanently. Minutes of all meetings and resolution of directors, and of directors' committees, should be held for 10 years. Copies of financial statements should be held for 10 years.

(LO 2.9)

20. D In the first instance, the issue should be discussed with the manager themselves – it is possible, for example, that Alphonse has misunderstood what he has been asked to do.

Only after this would he refer the matter to the level above the manager in question.

(LO 3.2)

21. C The spilled pollutants may be disclosed, but this would be voluntary. The finance director's ethical failure does not have to be disclosed, but could be

- disclosed voluntarily. **(LO 3.3)**
22. B Whistleblowers can be sued if they make disclosures that are not in good faith. **(LO 3.1)**
23. D Money laundering includes: converting, transferring or handling criminal property; concealing or disguising the nature and origin of criminal property; acquiring, using or possessing criminal property; participating in, or associating with, attempts to commit any of these activities. **(LO 3.4)**
24. A It is crucial that Hervé does not commit the offence of 'tipping off' the money launderer. This rules out reporting to Mr Mutsinzi or disclosing the matter in the auditor's report.
The report should be made directly to the Financial Investigation Unit, rather than the ICPAR. **(LO 3.1)**
25. A The engagement letter has to do with the responsibilities of management and the auditors, and does not relate to money laundering. Sending a report to the Financial Investigation Unit does not help prevent or detect money laundering, but is how money laundering is reported by the Money Laundering Reporting Officer. The auditor's report, and the audit process as a whole, are not intended to prevent or detect money laundering. **(LO 3.3)**
26. D Brigitte should not make the payment as she is likely to fall foul of relevant legislation, such as law N° 54/2018.
The request should not be reported to the Financial Investigation Unit first, although it may become necessary to do so later.
Matters such as this should be discussed within the company in the first instance, before contacting other bodies if the problem is not resolved. **(LO 3.2)**
27. C Justice is not an ethical principle as such. Integrity is a principle of the IESBA *Code of Ethics*, not the Institute of Business Ethics. **(LO 3.3)**
28. C If an accountant's licence precludes the holding of client monies then they should comply with the terms of their licence.
If the client is suspected of concealing the origin of the monies then this is money laundering, so the accountant should not only refuse to hold the monies but should also report the money laundering to the Financial Investigation Unit.
If the monies are being held to shelter them from taxation then this is likely to be considered tax evasion, and should not be undertaken. **(LO 2.4)**

29. A Accountants who work in the public sector must be politically neutral, so Cissy should not refuse to do the task that has been asked of her. There is no need to discuss the issue with the ICPAR as there is no professional ethical issue as such.
(LO 2.8)
30. D The threat is not to professional behaviour, as this is not a matter of the auditor failing to comply with regulations or bringing the profession into disrepute.
The threat does not arise from insufficient IT resources, but of time to perform duties. Similarly, the threat does not result from insufficient experience or training, because time has been allowed for audit assistants, ie those with a low level of experience and training.
(LO 2.7)
31. C This is principally a familiarity threat as a result of Christella's relationship with Josiane.
The principle being threatened is objectivity, ie not compromising judgments. There is no question of a lack of integrity at this point.
Informing the ICPAR of the link would not be helpful in this situation.
(LO 1.1)
32. A Fairness can be assessed by considering whether a decision be considered fair by those affected, or by an independent third party – not whether the decision maker would mind other people knowing the decision that they have taken.
Effect can be assessed by considering whether the interests of all stakeholders been considered.
(LO 3.3)
33. E The only principle that could be threatened in this situation is professional competence and due care, but this is not the case here. This is because it is normal for an audit assistant to perform new work, and the audit of an inventory count is within the expected range of work that a trainee would undertake. She has been provided with written instructions and can ask her manager questions, so she has the means to perform the work with due care.
(LO 1.1)
34. C Suspicion is not enough to whistleblow – the issue should first be discussed internally, which would help determine whether something unsavoury is in fact taking place.
Law N° 35/2012 supersedes individual employee obligations under contract in order to provide protection to whistleblowers acting in the public interest.
(LO 3.4)
35. A The report should be made to the firm's Money Laundering Reporting Officer (MLRO) in the first instance. The MLRO would then determine whether to disclose the matter to the FIU.

Disclosure to the RRA is not the principle issue here, although it is of course true that no taxation has been paid on the laundered funds. In any event Olive would be unlikely to make the disclosure directly.

(LO 2.6)

36. C This is a matter that should be raised internally first, preferable in writing (as here). External report would only become necessary if the internal response is not satisfactory.

(LO 3.2)

37. A Competing aggressively will usually be acceptable, but all of the remaining options stray across the line that separates acceptable competition from unethical or illegal practices.

(LO 1.4)

38. B The description given for honesty is in fact the description of the principle of integrity. The other principles are described appropriately.

(LO 1.7)

39. D Claude is demonstrating scepticism, by questioning the information given to him in order to form his opinion about it.

(LO 2.6)

40. D It is possible that accepting a lunch offer could compromise independence, for example if the lunch were at an expensive restaurant. However in this case the canteen offers free food anyway, so this is unlikely to compromise the auditor's independence.

(LO 2.2)

41. C To exaggerate in this way is to make a false claim, and to act in such a way as to discredit the profession.

Although Nadine's actions are self-interested, this is not an ethical principle. There is no question here of the principle of confidentiality having been breached.

(LO 1.1)

42. B This not a familiarity, self-review or self-interest threat, because there is no question of the auditor compromising the quality of their work as a result of familiarity, self-review or self-interest. The issue is that the auditor may be understood – in this case by the bank – as supporting or advocating for the client's position, which would compromise their independence.

(LO 1.5)

43. A Although it is true that the auditor is contractually obliged to report to the members on whether the financial statements are true and fair, this could give rise to a breach of a contractual obligation rather than of a duty of care under tort.

Although the auditor is bound by the ICPAR's *Code of Ethics*, breaching the *Code* does not necessarily give rise to any liability.

The RRA is not responsible for the regulation of audits.

(LO 1.2)

44. B Option (ii) describes a self-review threat, not a familiarity threat. **(LO 1.5)**
45. C There is no question of a member's liability under tort (for negligence) because there is no specific tortious behaviour here. **(LO 1.6)**
46. B The systems of internal control are not part of the accounting records as such, and do not feature in Article 237.
The auditor's report is not part of the accounting records. **(LO 2.9)**
47. C Adhering to a Code of Conduct may help the company and its employees to comply with applicable laws and regulations, but it would certainly not guarantee this compliance. **(LO 2.3)**
48. B It is not acceptable to use client information for the accountant's advantage, even if it is not disclosed. Client information should not be disclosed to a third party under normal circumstances.
The ICPAR member's duty of confidentiality extends to those whom the member asks for assistance. **(LO 2.5)**
49. A CDD information should always be obtained before providing any services to a new client. **(LO 2.1)**
50. A ICPAR members in business are bound by the same ethical principles as those in public practice, although the *Code of Ethics* offers different detailed guidance for them. Members should act in the public interest and should adhere to the seven Principles of Public Life. **(LO 1.7)**